

**ORANGE CITY COMMUNICATIONS, L.L.P.  
ORANGE CITY, IOWA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
Years ended June 30, 2013 and 2012**

**ORANGE CITY COMMUNICATIONS, L.L.P.  
ORANGE CITY, IOWA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Orange City Communications, L.L.P.  
Orange City, Iowa

### Report on the Financial Statements

We have audited the accompanying balance sheets of Orange City Communications, L.L.P. (an Iowa partnership) as of June 30, 2013 and 2012, and the related statements of income, partners' capital and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment; including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Communications, L.L.P. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Kiesling Associates LLP*

Emmetsburg, Iowa

September 25, 2013

Kiesling Associates LLP | Kiesling Consulting LLC | Kiesling Investment Management LLC

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**BALANCE SHEETS**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 158,457	\$ 214,433
Accounts receivable:		
Due from customers		
Less allowance of \$126 and \$848, respectively	20,030	15,636
Interexchange carriers		
Less allowance of \$7,784 and \$9,518, respectively	53,172	43,959
Related parties	45,807	77,266
Other	909	17,224
Prepayments	<u>2,808</u>	<u>1,839</u>
	<u>281,183</u>	<u>370,357</u>
 <b>PROPERTY, PLANT AND EQUIPMENT</b>		
Telephone plant in service	5,857,078	5,762,819
Internet plant in service	421,405	355,919
Video plant in service	<u>39,286</u>	<u>39,286</u>
	6,317,769	6,158,024
Less accumulated depreciation	<u>3,303,590</u>	<u>2,941,083</u>
	<u>3,014,179</u>	<u>3,216,941</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 3,295,362</u></u>	 <u><u>\$ 3,587,298</u></u>

The accompanying notes are an integral part of these financial statements.

## BALANCE SHEETS

### June 30, 2013 and 2012

The accompanying notes are an integral part of these financial statements.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**STATEMENTS OF INCOME**  
**Years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Local network services	\$ 640,209	\$ 670,500
Network access services	866,404	876,309
Long distance services	112,393	128,597
Internet services	670,474	661,873
Video services	684,879	672,872
Miscellaneous	14,617	20,666
Service discounts	<u>(245,015)</u>	<u>(255,966)</u>
	<u>2,743,961</u>	<u>2,774,851</u>
<b>OPERATING EXPENSES</b>		
Plant specific operations	349,193	387,350
Plant nonspecific operations	69,971	75,630
Cost of long distance services	60,465	98,484
Cost of internet services	285,848	253,941
Cost of video services	594,728	537,534
Depreciation	362,509	349,873
Customer operations	128,122	124,869
Corporate operations	158,487	207,418
General taxes	<u>70,645</u>	<u>125,046</u>
	<u>2,079,968</u>	<u>2,160,145</u>
<b>OPERATING INCOME</b>	<u>663,993</u>	<u>614,706</u>
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	12	112
Interest expense	<u>(57,015)</u>	<u>(73,374)</u>
	<u>(57,003)</u>	<u>(73,262)</u>
<b>NET INCOME</b>	<u><u>\$ 606,990</u></u>	<u><u>\$ 541,444</u></u>

The accompanying notes are an integral part of these financial statements.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**STATEMENTS OF PARTNERS' CAPITAL**  
**Years Ended June 30, 2013 and 2012**

	<u>Partners'</u> <u>Capital</u>
Balance at June 30, 2011	\$ 2,161,735
Net income	541,444
Distributions	<u>(750,000)</u>
Balance at June 30, 2012	1,953,179
Net income	606,990
Distributions	<u>(610,000)</u>
Balance at June 30, 2013	\$ <u><u>1,950,169</u></u>

The accompanying notes are an integral part of these financial statements.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 606,990	\$ 541,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	362,509	349,873
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	34,167	166,950
Prepayments	(969)	4,503
Increase (Decrease) in:		
Accounts payable	4,188	(31,102)
Accrued taxes	(13,120)	(1,316)
Other	(557)	(1,758)
Net cash provided by operating activities	<u>993,208</u>	<u>1,028,594</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(159,747)</u>	<u>(209,642)</u>
Net cash used in investing activities	<u>(159,747)</u>	<u>(209,642)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(279,437)	(133,197)
Distributions to partners	<u>(610,000)</u>	<u>(750,000)</u>
Net cash used in financing activities	<u>(889,437)</u>	<u>(883,197)</u>
Net Decrease in Cash and Cash Equivalents	(55,976)	(64,245)
Cash and Cash Equivalents at Beginning of Year	<u>214,433</u>	<u>278,678</u>
Cash and Cash Equivalents at End of Year	<u>\$ 158,457</u>	<u>\$ 214,433</u>

The accompanying notes are an integral part of these financial statements.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 1. ORGANIZATION**

Orange City Communications, L.L.P. was formed in accordance with Iowa Code Chapter 28E between the City of Orange City, Iowa and Long Lines, L.L.C. and pursuant to the Iowa Uniform Partnership Act. The City of Orange City and Long Lines, L.L.C. participate in the partnership as limited liability partners each with 50% interest. All profits and losses are shared in proportion to ownership interest.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

Orange City Communications, L.L.P. (herein referred to as "the Company") is a provider of local telephone access, long distance telephone services, internet services and video services in a service area Orange City, Iowa.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through September 25, 2013, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. Receivables are considered past due when the amount has been outstanding for thirty days or more.

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, and employee benefits.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property, Plant and Equipment (Continued)

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of internet and video property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when internet and video property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended June 30, 2013 and 2012.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Under provisions of the Internal Revenue Code, the partners include their respective shares of Company income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Company's federal and state tax returns for years 2009 to present remain subject to examination.

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes (Continued)

statements at June 30, 2013.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed.

Local network service, internet and video revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate and intrastate access revenues are based upon the Company's tariffs for access charges filed with the relevant regulatory agencies. Network access and long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at tariffed or contracted rates.

The Company recognizes the regulated portion of internet revenue as network access services and the non-regulated portion of internet revenue as internet services in the statement of operations. Revenue billed to customers for internet included in network access services totaled \$142,663 and \$145,464 in 2013 and 2012, respectively.

The Company recognizes taxes charged to customers on a net basis in the statements of income.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements

The Company determines the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1    Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2    Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3    Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform with the 2013 presentation.

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes the following:

	<u>2013</u>	<u>2012</u>
Telephone plant in service:		
Buildings	\$ 8,839	\$ 8,839
Furniture and office equipment	39,398	38,403
Vehicles and work equipment	130,176	116,514
Central office assets	472,976	472,976
Cable and wire facilities	5,016,849	4,945,002
Other plant and equipment	188,840	181,085
Subtotal	<u>5,857,078</u>	<u>5,762,819</u>
Internet plant in service:		
Internet equipment	<u>421,405</u>	<u>355,919</u>
Video plant in service:		
Head end equipment	<u>39,286</u>	<u>39,286</u>
Total property, plant and equipment	<u>\$ 6,317,769</u>	<u>\$ 6,158,024</u>

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT (Continued)**

Depreciation on depreciable property resulted in composite rates of 5.81% and 5.78% for 2013 and 2012, respectively.

**NOTE 4. LONG-TERM DEBT**

Long-term debt consists of:

	<u>2013</u>	<u>2012</u>
Northwestern State Bank of Orange City - 4.25%	\$ 1,194,573	\$ 1,474,010
Less current portion	<u>175,224</u>	<u>162,496</u>
	<u>\$ 1,019,349</u>	<u>\$ 1,311,514</u>

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2014	\$ 175,224
2015	182,818
2016	190,741
2017	199,007
2018	207,632

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Northwestern State Bank of Orange City. These mortgage notes are to be repaid in equal monthly installments covering principal and interest beginning after date of issue and expiring by 2020.

Cash paid for interest net of amounts capitalized for 2013 and 2012 totaled \$57,572 and \$75,432, respectively.

At June 30, 2013, of the funds available for long-term notes and lines of credit, all funds were advanced.

**NOTE 5. LEASES**

The Company is leasing various facilities and equipment on a monthly basis under an operating lease agreement. Total lease expense was \$48,000 for the years ended June 30, 2013 and 2012. The entire expense for the year ended June 30, 2013 and 2012 was paid to a related party.

**NOTE 6. RELATED PARTY TRANSACTIONS**

The Company regularly conducts business with a variety of entities related through common ownership. The following is a summary of transactions and balances with related parties as of June 30, 2013 and 2012 and for the years then ended:

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
**ORANGE CITY, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 6. RELATED PARTY TRANSACTIONS (Continued)**

	<u>2013</u>	<u>2012</u>
Plant specific operations	\$ <u>378,985</u>	\$ <u>465,228</u>
Cost of internet services	\$ <u>285,848</u>	\$ <u>253,941</u>
Customer operations	\$ <u>92,166</u>	\$ <u>92,263</u>
Corporate operations	\$ <u>90,000</u>	\$ <u>90,000</u>
Property and equipment expenditures	\$ <u>37,285</u>	\$ <u>23,391</u>
Accounts receivable	\$ <u>45,807</u>	\$ <u>77,266</u>

**NOTE 7. RELATED PARTY COMMITMENTS**

The Company has a maintenance agreement with Long Lines, L.L.C. The Company has agreed to pay Long Lines, L.L.C. \$7,500 per month to operate the utility plant and provide management and accounting services. The agreement specified an initial term of five years, expiring July 31, 2008, and automatically renews for twelve month periods, unless either party provides written notice prior to expiration.

The Company has entered into a long-term agreement with Pioneer Internet (an affiliate of Long Lines, L.L.C.) for the provision of wholesale internet services. Services agreed to include access to wholesale internet service and the related transport and connectivity. The expenses for services provided under the agreement were \$285,848 and \$253,941 in 2013 and 2012, respectively. The agreement specified an initial term of sixty months, beginning in 2001, and is automatically renewable for additional twelve month periods, unless either party provides written notice prior to expiration.

**NOTE 8. CONCENTRATIONS OF CREDIT RISK**

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers.

The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the service area.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

**ORANGE CITY COMMUNICATIONS, L.L.P.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 8. CONCENTRATIONS OF CREDIT RISK (Continued)**

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

## **SUPPLEMENTARY INFORMATION**



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Orange City Communications, L.L.P.  
Orange City, Iowa

We have audited the financial statements of Orange City Communications, L.L.P. as of and for the years ended June 30, 2013, and 2012, and have issued our report thereon dated September 25, 2013, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Kiesling Associates LLP*

Emmetsburg, Iowa  
September 25, 2013

**ORANGE CITY COMMUNICATIONS, L.L.P.  
ORANGE CITY, IOWA**

**SCHEDULE OF FINDINGS  
Year ended June 30, 2013**

Findings Related to the Financial Statements:

**INSTANCES OF NONCOMPLIANCE:**

Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Orange City Communications, L.L.P.  
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Communications, L.L.P. as of and for the year ended June 30, 2013, and have issued our report thereon dated September 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Orange City Communications, L.L.P. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Orange City Communications, L.L.P.'s internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange City Communications, L.L.P.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management of the Company, and federal and state regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kiesling Associates LLP

Emmetsburg, Iowa  
September 25, 2013